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E.C.-U.S. TRADE: A TALE OF ELEVEN MYTHS

The high U.S. trade deficit has fueled protectionist pressure in the United States, much of it directed against the European Community. Criticism of the E.C., however, is often based on misconceptions about the reasons for American trade problems. The attached document examines 11 myths relating to E.C.-U.S. trade, European farm policies and proposed U.S. trade legislation.

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DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

EC/US TRADE

A TALE OF ELEVEN MYTHS

Myth No. 1. Canada and Japan are the most important markets for the US.

Not so. Figures for 1986 show that the European Community (now with the addition of Spain and Portugal a Community of 12 nations) was by far the biggest US export market at $53.2 billion, compared with US exports of $45.3 billion to Canada and $26.9 billion to Japan.* Total US trade (exports and imports) with the Community of 12 was $132.7 billion, compared with $114.0 billion with Canada and $112.3 billion with Japan.

The big contrast in US trade with the Community, Canada and Japan is the trade deficit. With the Community and Canada, the trade deficit for 1986 was in the same ballpark - $26.4 billion and $23.3 billion respectively. But for Japan it amounted to no less than $58.6 billion.

For farm exports also for the fiscal year 1986 the Community easily retained its position as the biggest US export market - $6.4 billion compared with $5.1 billion to Japan. Moreover, US farm exports to the EC declined by only 3 percent, compared with a fall of 19 percent to non-EC destinations, and now represent some 25 percent of all US overseas sales.

Myth No 2. The excesses of the Common Agricultural Policy are basically responsible for the worsening of trade relations between the EC and the US.

Total American farm exports soared in just ten years (1970-1980) from $7 billion to $44 billion. Since then they have fallen dramatically to some $26 billion last year. The Community and the Common Agricultural Policy (CAP) have been blamed for this fall. But this is not in accordance with the facts. According to the USDA, the recent fall in US farm exports reflects the strength of

* The EC is considered a single market because it is a genuine customs union. It has removed all tariffs and quotas between its members and has a common trade policy and a common external tariff system.

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the dollar in the early 1980's, the level of US support prices, the fact that developing countries had been strapped for cash in their purchases and have become more self-sufficient in farm production. Meanwhile, the EC - as pointed out above - has remained the US farmers' best customer, taking 25 percent of US farm exports.

Myth No. 3. The Community is the biggest subsidizer of farmers in the world.

The Community is not unique in its use of subsidies. Dan Amstutz, Under Secretary at the US Department of Agriculture, said in testimony before the House Agriculture Committee in November 1985 (even before the recent major rise in Federal farm expenditure): "In my judgement, the latest figures will show that Japan leads the parade and I think the US will come in second and the EC will come in third." Last year the Community subsidized 11 million farmers to the tune of $22 billion compared with $26 billion of Federal farm price expenditure on 2½ million farmers in the US. This has not meant Community farmers living high on the hog. Their incomes over the last 10 years have declined 30 percent, compared with a general rise in incomes throughout the Community of 19 percent.

Myth No. 4. The Community is hogging the world market with subsidized exports.

The Community and the US compete only over about a quarter of US farm exports - mainly wheat and dairy products. The international trading rules provide that agricultural export subsidies are permitted but should not to be used to get more than an equitable share of the world market. What then has happened to the EC share of the world market in wheat and dairy products? In wheat the high point of the American exports was 1981/1982 when the US accounted for 49 percent of the world market. In 1984/1985 this had dropped to 36 percent. Was this the Community's responsibility? Hardly, since our share remained stable between 14-16 percent. What about dairy products? For years the American share of the world market was nil. In 1985 it was 10 percent, an increase achieved mainly at the EC's expense. For milk the US pushed its share again at the EC's expense, from 10 percent to 26 percent.

Myth No. 5. The Community is doing nothing about its subsidies to farmers.

The Community has taken real and painful measures to reform the CAP and to reduce the cost to the taxpayer. In 1984 and 1985 the Community reduced its price support for dairy products and grains. In 1985, for example, production of milk fell by between 4 and 5 percent. Last year the Commission got through the Council a price freeze together with a number of other proposals such as a co-responsibility levy for grains, which together with the 1984 price cut will make production less attractive.

In December 1986 the Community took some fateful decisions which in the pre-Christmas news rush did not get the attention they deserved. The Council of Ministers agreed that dairy production would be cut over a two-year period by just under 10 percent and that the support price of beef should be reduced by some 13 percent. The EC butter mountain - now at some 1.5 million metric tons - will be brought down to 350,000 tons and the beef mountain should be cut by some 50 percent to some 300,000 metric tons by the end of 1987. These agreements are the biggest changes in the Community's CAP since it was established in 1962. They will result in savings from the 1989 budget of between one and two billion dollars. These cuts have been very unpopular with Community farmers. They are asking, "If we are suffering these painful cuts what are our trading partners doing? Are Community farmers expected to bear this burden alone?!"

<u>Myth No. 6. Unfair trading practices abroad amount to a "tilted playing field" against American exporters</u>.

In a recent article in the New York Times, William N. Walker, a lawyer who was Deputy U.S. Trade Representative from 1975-1977, wrote: "Advocates of the level playing field seem to assume that only foreigners engage in field-tilting. But we impose restraints of one kind or another on imports of meat, sugar, rice, peanuts, tobacco, dairy products, textiles, apparel, motorcycles, automobiles, machine tools, semiconductors and steel. Concern is voiced about growing South Korean penetration of the United States market, but nearly 45 percent of South Korea's exports to the United States are already subject to restraint." In addition several measures recently introduced by the United States - customs user fees, Superfund legislation and provisions of a new tax reform law which excludes foreign suppliers of small tourist aircraft from certain forms of credit - have been made the subject of proceedings against the United States by the Community under provisions of the General Agreement on Tariffs and Trade (GATT).

The Commission is updating its list of American trade barriers which impede Community exports to the US. Copies will be circulated when available.

<u>Myth No. 7. Trade legislation must deal with a trade deficit possibly up to $150 billion this year</u>.

One fundamental cause of the trade deficit is the budget deficit. Until that is dealt with, the trade deficit, though smaller, will still be considerable. As Edmund T. Pratt, CEO of Pfizer Inc. testified to the Senate Finance Committee on 15 January: "... the single most important action that the [US] government could take as a correction to the foreign trade deficit [... is to take] actions that will effectively reduce the federal budget deficit to proportions that will enable domestic savings to equal or exceed doemestic investment so that we [the US] will no longer be a net international debtor."

Also, Commerce Secretary Baldrige has said that the competitiveness of U.S. industry needs to be improved.

Trade legislation can tackle a number of useful things - authority to engage in the new trade round, adjustment assistance, retraining and education. But any trade legislation which would only deal with the massive trade deficit by imposing barriers to imports would lead to foreigners quickly retaliating.

What features in a possible trade bill could be dangerous? Several. Following are a few examples.

Myth No. 8. Reciprocity must be sought sector by sector.

It has been argued that unless foreigners give the US equal treatment in certain specific sectors such as telecommunications, barriers should be erected against their exports to the US. First, the notion of equal treatment may be in the eye of the beholder (witness the fact that the EC had a deficit with the US of at least half a billion dollars in telecommunications in 1985). Second, everyone can find sectors in which one country gives better treatment than others. In the case of wool textiles, for instance, tariffs in the Community are less than half those in the US. To try and get reciprocity in every specific sector would mean massive new restrictions sprouting up everywhere on world trade. Reciprocity is essential in trade negotiations. But it can only be achieved, as it has in all past negotiations in the General Agreement on Tariffs & Trade, by overall reciprocity - trading off the disadvantages in one sector for advantages in another.

Myth No. 9. Taking a two-by-four to foreigners under Sections 201 and 301 of the U.S. trade laws will cure the nation's ills.

It is all very well to ask for tough action under domestic legislation. But what matters is whether actions by a contracting party of the GATT are in conflict with the international trading rules. Otherwise, "tough" action by the US will be followed by equally tough action by others against US exports. And it should always be remembered that the international trading rules on, say, subsidies and dumping may not be perfect - but it is the only law we have. Amendments need to proceed by multilateral agreement, not unilateral action.

Myth No. 10. Across the board tariff increases could usefully raise funds to reduce the Federal deficit.

This would conflict with the international obligations of the US as far as bound items were concerned. A bound item is one that has been negotiated in the GATT and cannot be changed without negotiation and compensation. In addition, "standstill" and "rollback" provisions were passed at the September 1986 launching of the Uruguay Round in Punte del Este. This means GATT members are under the obligation not to introduce new trade restrictions should try to roll back protectionism. Any measures to increase tariffs would be a breach of these obligations and could lead to retaliation by other countries.

<u>Myth No. 11. Countries that presently had a growing current account surplus could usefully be required to cut their surpluses dramatically or face a severe special tariff imposed by the US.</u>

This again would conflict with the international obligations of the US, throw a large wrench in the current round of trade negotiations and could easily boomerang. Other countries could pass similar legislation. In 1980 the US ran a surplus with the Community of $18 billion. Would the US appreciate it if when it gets into a surplus position again with a number of its important trading partners tariff increases were to be imposed on American exports?